

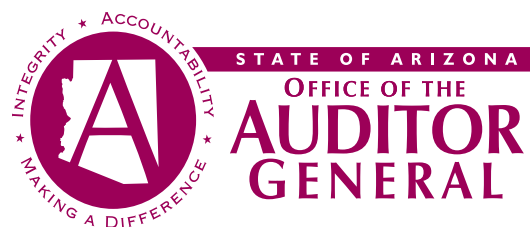
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Tuba City Unified School District No. 15

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 15, 2007

Governing Board
Tuba City Unified School District No. 15
P.O. Box 67
Tuba City, AZ 86045-0067

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Connie A. Sauvageau, CPA, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Tuba City Unified School District No. 15 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$41.9 million it received in fiscal year (FY) 2006 to provide this education.

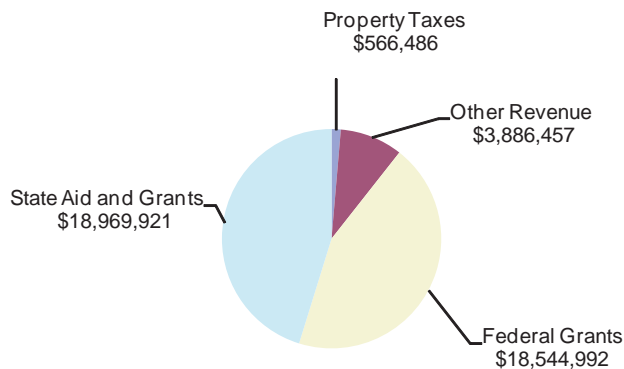
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Coconino
Number of Schools: 7

Number of Students: 2,163
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Tuba City Unified School District No. 15 Audited Financial Statements for the Fiscal Year Ended June 30, 2006.*

The District should improve controls over competitive purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow the School District Procurement Rules and USFR guidelines designed to help ensure that the District receives the best possible value for the public monies it spends, and that its expenditures are appropriate, approved in advance, and adequately supported. However, the District did not always follow such

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

procedures. Specifically, the District did not always ensure that for purchases made through competitive sealed bids or proposals, the bids or proposals were stamped with the time and date upon receipt and stored unopened until the time and date set for opening, and that envelopes were retained to support that such procedures were followed. In addition, the District did not analyze the known requirements of an item or a collection of items that, in the aggregate, would result in the purchase of the item or items through the use of oral quotations, written quotations, or competitive purchasing. As a result, the District did not always obtain at least three oral or written quotations for purchases requiring them.

Further, the District did not always prepare purchase orders prior to ordering goods and services and issued blanket purchase orders for indefinite time periods. Finally, the District's Governing Board did not authorize purchases made under General Services Administration (GSA) contracts.

Recommendations

To improve controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Retain documentation to support that all bids or proposals were date- and time-stamped upon receipt and held unopened until the date and time set for opening.
- Determine whether to request oral or written price quotations, or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above \$5,000.
- Obtain oral or written price quotations from three or more vendors for purchases requiring them. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Prepare and approve purchase orders before goods and services are ordered, and only when cash or budget capacity, as applicable, is available to cover the expenditure.
- Ensure each blanket purchase order states a specific period of time that the purchase order is in effect and a specific dollar limit, and is closed at the end of each fiscal year.
- The Governing Board must authorize purchases under current GSA contracts. The Governing Board must also determine in writing that all required criteria listed in Arizona Revised Statutes (A.R.S.) §15-213(J) are met for a GSA contract before authorizing purchases under the contract.

Purchase order procedures are outlined on USFR page VI-G-3 and 4.

The District's controls over payroll processing should be strengthened

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and that adequate records are maintained to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, the District did not ensure that all employees' timecards were signed by a supervisor and that the amounts paid to employees agreed to time summaries prepared. Also, the time clock was not always used to complete timecards, and handwritten edits were not always adequately reviewed as a duplicated day resulted in an overpayment to an employee. Further, the District did not compare payroll warrants to the payroll register on a test basis prior to distribution to employees to ensure that the payroll warrants were accurately printed and were made payable to bonafide employees.

The District did not ensure that all employees' timecards were approved by a supervisor and agreed to the amount paid.

Recommendations

To strengthen controls over payroll processing, the District should require that all timecards be approved by the employee and the appropriate supervisor by initialing and dating the timecards before they are submitted for payroll processing. Also, individual timecards that include the dates and hours worked should be prepared for each classified employee. In addition, the District should ensure that payroll registers are properly supported by timecards, and have a second employee verify the accuracy of payroll registers. Finally, the District should document a review of payroll warrants to ensure that they agree with the payroll register and voucher before distributing them to employees.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to provide minimum instructional hours to students and to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not provide at least the minimum instructional hours for 8th-grade students at its alternative school. Additionally, entry dates in the District's computerized attendance records did not always agree with the dates recorded on student entry forms, and student membership did not always begin with the student's first day of actual attendance. Also, the 40th-day membership and absence amounts reported to ADE did not agree to the District's records for all grades. Further, the District did not always enter student withdrawals into the District's computerized attendance system within 5 working days or submit its membership and absence information to ADE electronically at least once every 20 days.

Membership and attendance information reported to ADE differed from the District's records.

Recommendations

To help ensure that the District complies with state requirements for instructional hours, the District should provide an instructional program for all grade levels that meets or exceeds the required instructional hours in A.R.S. Additionally, to help ensure that it receives the correct amount of state and local funding, the District should retain accurate documentation to support membership and absence data reported to ADE, including properly completed entry and withdrawal forms. The entry and withdrawal forms should include the entry or withdrawal date, date prepared, and the date the entry or withdrawal was entered into the District's computerized attendance system, which must be within 5 working days of the actual date of entry or withdrawal. The District should also ensure that the membership and absences reported to ADE agree with its attendance records and review ADE's reports for differences and resolve any discrepancies promptly. Further, the District must submit membership and absence information to ADE at least once every 20 school days.

A.R.S. §15-901(A)(2)(b) describes the required instructional hours for each grade level.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

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The District's controls over cash receipts and bank accounts should be improved

The District receives cash from various sources, including student activities and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not restrict check signers from having access to unused checks. Additionally, the District did not always deposit food service cash receipts in a timely manner and did not remit monies in the Food Service Fund and Miscellaneous Receipts clearing bank accounts to the county treasurer at least monthly. Also, the District inappropriately used the Miscellaneous Receipts clearing bank account to make payments to employees for cancellation of life insurance, excessive contributions to Arizona State Retirement, and various other refunds. Further, the District allowed the Food Service Fund revolving account to exceed its authorized amount and did not retain the bank account statements for May and June 2006.

The District inappropriately used the Miscellaneous Receipts clearing account to make refund payments to employees.

Finally, the District holds student activities monies raised through students' efforts for safekeeping and has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. However, the District did not fulfill its fiduciary responsibility as the student activities bank account check signers were not authorized by the Governing Board, and checks were not signed by the student activities treasurer or assistant treasurer.

Recommendations

To improve controls over cash receipts and bank accounts, the District should:

- Maintain effective internal controls to safeguard cash that include ensuring that check processing responsibilities are separated so that check signers do not have access to unused checks.
- Deposit all cash receipts daily, if significant, or at least weekly into the appropriate bank accounts or directly with the county treasurer.
- Remit monies deposited in the Miscellaneous Receipts or Food Service Fund clearing bank accounts to the county treasurer at least monthly, making no other disbursements from these accounts.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

- Process refunds to employees when appropriate from either the Maintenance & Operation Fund revolving bank account or by a warrant drawn on the applicable fund.
- Maintain the Food Service Fund revolving bank account at its authorized imprest amount, not to exceed \$500.
- Prepare formal monthly bank reconciliations in a timely manner and ensure that bank statements and other reconciliation documentation are retained.
- Ensure that all student activities checks are signed by the Governing Board-designated student activities treasurer or assistant treasurer and one other Governing Board-authorized signer.
- Notify the bank when authorized student activities check signers are changed.